County of Los Angeles
CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

February 17, 2012

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON THE MIDDLE CLASS TAX RELIEF AND JOB CREATION ACT OF 2012

On February 17, 2012, the Senate and House both approved the conference report to H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2012, clearing it for the President's signature. The bill would extend a Social Security payroll tax rate reduction, emergency Unemployment Insurance (UI) benefits, and current Medicare physician rates through December 31, 2012, which, under current law, expire at the end of February. The conference agreement was reached after Republicans dropped demands that the entire cost of the bill – most notably, its costliest provision to extend the payroll tax rate reduction -- be offset by a like amount of spending cuts. As scored by the Congressional Budget Office (CBO), H.R. 3630 would increase the Federal budget deficit by $89.3 billion in Federal Fiscal Year (FFYs) 2012 through 2022. The cost of extending the payroll tax rate cut alone totals $93.2 billion as estimated by the CBO and Joint Committee on Taxation.

H.R. 3630 also extends the Temporary Assistance for Needy Families (TANF) Block Grant and capped entitlement for the Child Care and Development Block Grant through the end of FFY 2012 (September 30, 2012). These programs originally were due to expire at the end of FFY 2010, but had been extended through a series of short-term extensions, most recently through February 29, 2012. It is widely expected that Congress will enact another short-term extension of both programs in September rather multi-year reauthorization legislation. Both block grants are built into the CBO's current law baseline spending estimates in future years so their extensions do not require any offsetting spending cuts.

Offsetting Spending Cuts and Revenue Increases of County Interest

In order to help offset the bill's cost increases, H.R. 3630 also includes provisions, which would increase Federal revenue or reduce Federal spending, including a few provisions of major interest to the County.

Spectrum Auction/Public Safety Interoperable Communications: The bill includes spectrum provisions which would increase Federal revenue over the next ten years by auctioning radio spectrum. The CBO estimates that the increased revenue would be sufficient to reduce the Federal deficit by a net $15.2 billion through FFY 2022 even though the bill also includes provisions to improve public safety interoperable communications, which, in effect, would reduce potential auction revenue and increase spending. H.R. 3630 allocates the D-Block spectrum, located in the 700 MHz band, for use by public safety agencies as part of an interoperable communications network. However, it also provides for the auction, within nine years, of the UHF spectrum between 470 and 512 MHz, which currently is used by eleven jurisdictions, including Los Angeles, to support voice communications for public safety. Last year, the CBO estimated the value of the D-Block spectrum to be $2.75 billion, if auctioned. The bill also establishes a Public Safety Trust Fund into which $7 billion of the spectrum auction revenue would be used to help build a nationwide public safety broadband network. The bill creates a new First Responder Network Authority, a Federal agency which would be responsible for administering the development of this new network. The bill's spectrum provisions are similar to those included in the President's proposed FFY 2013 Budget.

H.R. 3630 also includes several health-related spending cuts to finance the estimated $18 billion cost of maintaining current Medicare physician payment rates through the end of 2012, which, otherwise, would drop by 27.4 percent. These spending cuts include the following ones of major County interest:

Prevention and Public Health Fund: The bill would reduce appropriations for the Prevention and Public Health Fund (PPHF), which was established under the Affordable Care Act (ACA) by a combined total of $6.25 billion in FFYs 2013 through 2021. In FFYs 2013 through 2017, H.R. 3630 would reduce the PPHF to $1.0 billion a year from $1.25 billion in 2013, $1.5 billion in 2014, and $2.0 billion a year in 2015, 2016, and 2017 under current law. The PPHF would be reduced from $2.0 billion a year in FFYs 2018 through 2021 to $1.25 billion a year in 2018 and 2019 and $1.5 billion a year in 2020 and 2021. The bill, therefore, would significantly reduce funds in the PPHF, which, otherwise, would be available to support a wide range of prevention and public health services, including potential funding for County-administered activities. The potential revenue loss to the County cannot be determined because the Department of Health and Human Services, which administers the PPHF, has broad discretion in determining how the Fund is allocated among prevention and public health programs and activities, which are authorized under current law.

Medicaid Disproportionate Hospital Share (DSH) Reduction: The bill would reduce Federal spending by an estimated $4.1 billion by rebasing Medicaid DSH allotments in FFY 2021, based on the reduced DSH allotments in FY 2020 under the ACA, which reduced DSH funding in FFYs 2014 through 2020. Under current law, Medicaid DSH allotments, otherwise, would revert back to pre-ACA levels, beginning in FFY 2021. The fiscal impact of the FFY 2021 DSH reduction on the County cannot be estimated with any certainty at this time because it will depend on the methodology which the Secretary of Health and Human Services must develop for reducing DSH payments and on the extent to which health care reform ultimately reduces the County's uncompensated care costs relative to other DSH hospitals.

We will continue to keep you advised.

WTF:RA
MR:MT:sb

c: All Department Heads
Legislative Strategist